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DEPT PASS TO USTR CLILIENFELD/AADLER/CHINCKLEY
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER
EEB/CIP DAS GROSS, FSAEED, MSELINGER

E.O. 12958: N/A
TAGS: EAGR EAIR ECON ECPS EFIN EINV ENRG EPET ETRD BEXP
KIPR, KWMN, PHUM, SENV, ASEC, IN, EMIN

SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
NOVEMBER 3 TO NOVEMBER 7, 2008

¶1. (U) Below is a compilation of economic highlights from Embassy New Delhi for the week of November 3 to November 7, 2008, including the following:

-- IMF Lowers World, Indian Growth
-- Jet Airways Serves Notice to Expat Pilots
-- GE Commercial Air Services Files for Repossession of Kingfisher Aircraft
-- Indian Government Reduces Taxes on Air Turbine Fuel
-- Textile Industry Braces for a Slow-down
-- Pawar Says 2MT Wheat to Get Export Ban Waiver
-- GOI Retains Ban on Non-Basmati Rice Export
-- WB Chief Minister Inaugurates USD 7 Billion Steel Plant
-- A Chinese Car Factory in Singur?

IMF Lowers World, Indian Growth

¶1. (U) Just a month after issuing its semi-annual World Economic Outlook, the IMF issued an update, downgrading growth for the world and India as a result of the financial crisis. Specifically, the IMF cited significant deleveraging by households and firms that are cutting back consumption demand and investment. It now projects world growth in 2008 at 3.7% compared to last month's 3.9% projection, with even lower growth in 2009 at 2.2% versus 3.0% envisioned just one month ago. For India, the IMF expects growth in 2008 at 7.8% rather than 7.9% anticipated last month, and GDP growth in 2009 at 6.3%, compared to a projection of 6.9% in October. The 0.6 percentage point reduction in 2009 growth is amongst the smallest revisions the IMF did to countries' growth.

¶2. (U) The Fund report claimed that monetary policy may not be sufficient because of the deleveraging and lower purchasing power leading to falling demand. As such, it suggested that countries provide fiscal stimulus to help support growth. The IMF called for better policy coordination and consistency, pointing to the need to develop cooperative arrangements for large cross-border institutions and to consider the cross-border effect of national policies.

Jet Airways Serves Notice to Expat Pilots

¶3. (U) The Indian airline industry is undergoing a sharp economic downturn and is expected to post losses of around $2 billion during the current financial year. To reduce overcapacity and costs, leading Indian carrier Jet Airways will let go 35 foreign pilots. Jet has about 258 expatriate pilots, with 198 flying B-777s and A-330s and 60 piloting the 737s. Expat pilots are paid higher salaries and the falling rupee has added an additional 15-20 per cent in salary costs for expat pilots. Earlier this year the civil aviation regulator, Director General Civil Aviation (DGCA) issued a directive to all India carriers asking them to phase out expat pilots by July 31, 2010.

GE Commercial Air Services Files for Repossession of Kingfisher Aircraft
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¶4. (SBU) GE Commercial Aviation Services (GECAS) has filed a complaint with India's aviation regulator DGCA against Kingfisher Airlines for default on lease payments for four A320 aircraft. The lessor has asked for permission to repossess the aircraft and asked that the aircraft be de-registered from the airline. According to a senior GE official, although the company understands the current financial crunch faced by the sector, it needs to preserve its legal rights and lay down a marker that lease defaults are not acceptable. Negotiations between the two companies are ongoing to arrive at an amicable solution.

Indian Government Reduces Taxes on Air Turbine Fuel

¶5. (U) Indian oil companies have reduced aviation turbine fuel (ATF) prices by 17 percent and the Central Government has abolished another 5 per cent customs duty on ATF. Although ATF prices have come down progressively over the past few months, most observers believe domestic Indian airlines are unlikely to reduce high fuel surcharges on tickets given continued losses in the industry.

Textile Industry Braces for a Slow-down

¶6. (U) According to local media sources, garment exporters in India are temporarily closing down factories and reducing workforces in order to secure themselves from the global financial crisis. Local news reports that exports of readymade garments, which totaled $9.69 billion for 2007/08, dropped 6.59 percent in September over the same period in 2007. Thirty-three percent of the industry's exports go to the U.S., which is by far the sector's largest importer. The textile industry on the whole is the second largest employment generating sector in India after agriculture, with the ready-made garment industry providing over four million jobs.

¶7. (SBU) In an interview with EconOff, Mr. Vijay Mathur, Deputy Secretary of the Apparel Export Promotion Council (AEPC), said that Council members are concerned that the slowing economy will have a substantial negative impact on the Indian textile industry. Mathur added that several of the main companies that import Indian garments in the US and Europe have been slowing down business and closing stores. As a result, garment exporters have idle capacity and are being forced to temporarily close factories in order to keep costs down. Mathur predicted that the slow down will be felt the most by smaller exporters, some of which may not be able to survive. In addition, ASSOCHAM reports that the credit crunch is preventing textile companies from implementing plans to expand or modernize.

¶8. (U) Aside from the slowing U.S. economy, the dollars rise against the rupee has not been as helpful as expected to textile exporters. According to industry reports, a large number of exporters sought to hedge their exposure when the rupee was appreciating against the dollar; thus, while they have been protected during the dollar's fall, they are not reaping the benefits of its rise. Industry sources predict that many contracts set earlier this year will likely be renegotiated.

Pawar Says 2MT Wheat to Get Export Ban Waiver

¶9. (U) On the sidelines of an international agricultural business summit on November 5, Agriculture Minister Sharad Pawar told press that the GOI has decided to exempt two million tons (MT) of wheat from the government's export ban to meet the requirements of countries that have approached India through diplomatic channels. However, the overall wheat export ban will continue. The GOI imposed a blanket ban on all wheat exports in 2007, following a drop in procurement by state agencies. Falling local procurement compelled India to import almost 5.5 MT and 1.8 MT of wheat in 2006 and 2007, respectively. Indian state agencies have procured 23 MT of wheat in 2007-08 - more than double the previous year's level. Trade analysts believe that robust output and higher stocks at government warehouses have enabled India to set aside some of the grain for overseas supplies. [Comment: Pawar's statements are most likely for domestic political consumption given that South Asian neighbors can procure higher quality wheat on the international market at a lower price than Indian wheat. Indian wheat is currently priced at $270 per ton while the landed cost of U.S. Western White wheat in Bangladesh or Pakistan is currently $245 per ton. Wheat exports are even more unlikely given the continued ban on non-basmati rice exports, since most observers feel India is in a better position to export the latter commodity. End comment].

GOI Retains Ban on Non-Basmati Rice Export

¶10. (U) The Government of India (GOI) on November 4 decided to

continue the ban on export of non-basmati rice in view of the prevailing high rate of inflation. In a bid to forestall escalating food prices, India took several measures in March this year to improve the domestic availability of food grains, including a ban on non-basmati rice exports and a reduction of import duties on edible crude oils to zero percent and refined oils to 7.5 percent. The Group of Ministers (GOM) for Food Security, which was established in March 2008 during the height of the food price crisis, discussed the food grain scenario in the country and also reviewed various export bans. Many local traders had anticipated the GOI would lift the rice export ban and increase import duties on edible oils to earlier levels given falling international rice prices and a comfortable domestic stock position. In addition, India is expecting a record rice crop this year. Despite this backdrop, the GOM, headed by Foreign Minister Pranab Mukherjee, and with the Ministers of Agriculture, Commerce, and Finance and the Planning Commission Deputy Chairman as members, decided against lifting the ban because of reported inter-ministerial differences over the issue.

WB Chief Minister Inaugurates USD 7 Billion Steel Plant

¶11. On November 2, JSW Bengal Steel Limited and West Bengal Chief Minister (CM) Buddhadeb Bhattacharjee broke ground on a 10 million ton green-field integrated steel plant in Salboni, about 100 miles west of Kolkata. JSW Steel (89 percent) and the West Bengal Industrial Development Corporation (9 percent) are partners in the USD 7 billion project. The joint venture worked closely with local residents to ensure that land acquisition did not become an issue. Eager to demonstrate the viability and attractiveness of investment in West Bengal after the highly-publicized pullout of TATA motors in Singur, the governing Communist Party of India - Marxist party marshaled an impressive crowd (estimated at 300,000) for the launch-cum-political rally. Unfortunately, the happy tenor of the day was overshadowed by an improvised explosive device attack, attributed to leftist extremists (known as Naxalites/Maoists), on the CM's convoy shortly after departure, leaving several police officers severely injured.

A Chinese Car Factory in Singur?

¶12. On November 4, officials from China's First Automobile Works (FAW) met the West Bengal Chief Minister Buddhadeb Bhattacharjee to

seek 600 acres of land for a new small car factory according to post's contacts in the West Bengal Industrial Development Corporation. The company, in partnership with Ural India (an Indo-Russian joint venture), plans to invest USD 300 million in a new automobile plant. Singur is one of four sites under consideration. A memorandum of understanding is expected as early as next week.

¶13. (U) Visit New Delhi's Classified Website:
http://www.state.sgov/p/sa/newdelhi

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